

97TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } No. 97-38

FEDERAL MANAGERS' ACCOUNTABILITY ACT OF 1981

MAY 14, 1981.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed.

Mr. BROOKS, from the Committee on Government Operations,
submitted the following

REPORT

[To accompany H.R. 1526]

[Including cost estimate of the Congressional Budget Office]

The Committee on Government Operations, to whom was referred the bill (H.R. 1526) to amend the Accounting and Auditing Act of 1950 to require ongoing evaluations and reports on the adequacy of the systems of internal accounting and administrative control of each executive agency, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment strikes out all after the enacting clause of the bill and inserts a new text which appears in italic type in the reported bill.

EXPLANATION OF AMENDMENT

Inasmuch as all after the enacting clause of H.R. 1526 was stricken and all language incorporated into the amendment, this report constitutes an explanation of the amendment.

SUMMARY AND PURPOSE

H.R. 1526 will amend the Accounting and Auditing Act of 1950, by requiring ongoing evaluations of the adequacy of systems for internal accounting and administrative control of each executive agency. These evaluations, under guidelines to be established by the Office of Management and Budget are to be conducted to determine whether the agencies' internal accounting and administrative control systems are in compliance with standards which will be prescribed by the Comptroller General. An annual statement signed by the agency head will certify the effectiveness of the agency's internal controls or, if necessary, out-

line a schedule for strengthening any weaknesses found in those controls.

The bill also will require Inspectors General to investigate any allegation that an employee provided false or misleading information during the evaluation process or in the actual preparation of the agency head's annual statement. It will provide for close review of the budget requests of the Offices of Inspector General and will require that changes made in the original requests be noted in the President's budget submission to the Congress. In addition, it will require the head of each government agency to report on the agency's progress in obtaining approval of its accounting systems by the Comptroller General as already required by the Accounting and Auditing Act of 1950.

In testimony before the Subcommittee, former Comptroller General Elmer Staats stated that this legislation can be of substantial help to the government. We also note that in a recent report to Congress entitled "Fraud in Government Programs" dated May 7, 1981, the General Accounting Office again recommended the enactment of this legislation. In addition, representatives of various accounting and auditing groups voiced strong support for this measure. The Office of Management and Budget also testified and made several suggestions for changes in the legislation. While the Committee did not accept all their suggestions, substantial change was made in the legislation which reflects the OMB's views in part.

Over the years, studies done by the GAO and others have uncovered waste in Federal resources, funds and property, which apparently could have been avoided by more stringent and more effective internal auditing controls. Requirements such as those in H.R. 1526 will focus attention on an area which has had low priority in recent years. The lack of strong and effective controls has created opportunity for waste, misuse and mismanagement, as well as fraudulent transactions. By lessening, if not altogether eliminating, such opportunities, more Federal dollars will be available for use in implementing program objectives, as originally intended by the Congress.

COMMITTEE ACTION AND VOTE

H.R. 1526 was ordered by unanimous voice vote of the Committee on Government Operations at a duly called meeting on May 7, 1981, a quorum being present.

HEARINGS

Hearings were held by the Subcommittee on Legislation and National Security on Wednesday, February 25, 1981, and Wednesday, March 11, 1981, at which time Congressman Henry J. Hyde and representatives of the Office of Management and Budget, the General Accounting Office, the Association of Government Accountants, and the Institute of Internal Auditors appeared and testified in support of the legislation.

DISCUSSION

Slack internal controls in executive departments and agencies have often been shown to be important factors contributing to fraud, waste

and abuse in Government programs and services. Strengthening these controls has not received the attention it deserves in the executive branch as indicated by the fact that 30 years after passage of the law requiring agency accounting systems to be approved by the Comptroller General, only 64 percent of those systems have received approval. The Department of Defense and the Department of Health and Human Services, are among those who have not yet gained approval of their systems.

The Committee on Government Operations has devoted considerable time and attention to the problem of internal controls including spurring resolution of audit findings and follow up on audit recommendations. H.R. 1526 is a major step toward making the needed improvements.

One of the strongest proponents of this legislation is the former Comptroller General of the United States Elmer B. Staats. In one of his last congressional appearances before leaving office, General Staats told the Subcommittee on Legislation and National Security of his support and the urgent need for passage of this bill. He related the fact that the General Accounting Office had issued literally hundreds of reports and studies that disclose the fact that most agencies are operating systems vulnerable to physical losses and waste of Federal property and money as well as susceptible to fraudulent or otherwise improper use of Federal resources. He cited a few of the findings disclosed in the GAO reports as follows:

About \$198,000 was returned by vendors because duplicate payments were made by one department as a result of inadequate control over processing invoices submitted by the vendors.

A number of Federal agencies were found to incur commitments for future cash outlays without first verifying availability of appropriated funds.

A number of agencies did not effectively analyze receivables to identify overdue accounts in order to take necessary action to receive payment.

A Defense Department employee embezzled over \$2 million because he was allowed to both process claim adjustments as well as approve claim payments.

General Staats concluded stating:

Effective internal controls help ensure that Government managers know what their monetary and physical assets and resources are at all times; know how the assets are being used, dispensed, and disposed of and for what purposes; know that such purposes are authorized; and that fraud, waste, and abuse are minimized and discouraged. This proposed legislation establishes a badly needed mechanism which forces management to pay closer attention to the quality of internal controls in its agency and, more importantly, it establishes a vehicle to enhance accountability of Federal officials. We believe passage of the Federal Managers' Accountability Act of 1981 would definitely help bring about strong commitment and vigilance in the area of accountability.

Excerpts from the former Comptroller's statement are found in the Appendix to this report.

The need to improve internal control systems was also recognized by the Office of Management and Budget represented at the hearing on the bill by John J. Lordan, Chief of its Financial Management Branch. The OMB strongly supported the objectives of the bill, though opposing some of its provisions, and reported on steps it had taken to encourage the agencies to strengthen their controls. He stated that a draft circular being considered contained requirements "entirely consistent with the objectives of the bill."

The legislation was also vigorously endorsed by the Association of Government Accountants, along with other professional organizations. The AGA is composed of more than 12,000 financial managers dedicated to improving financial management at all levels of government. After citing the need for more accountability at the highest levels, its representatives, John P. Abbadessa and Gilbert Simonetti, stated that if this legislation is enacted

It is reasonable to expect that agency heads will assume more formal responsibility for the quality of their organizations' internal control systems and will set a newer, higher priority for overall good financial management which will filter from top executives down through the organization.

We observe that the new administration has pledged to mount an aggressive campaign against fraud, waste, and mismanagement of Federal programs and operation. Although the scope of such abuse has not yet been fully determined, there is substantial evidence of its existence. All necessary steps, therefore, should be taken to secure its elimination.

H.R. 1526 furnishes basic steps and provides this opportunity.

SECTION-BY-SECTION ANALYSIS

Section 1 indicates the short title.

Section 2 would amend section 113 of the Accounting and Auditing Act of 1950 by adding at the end a new subsection requiring:

- (1) that internal controls be established in each executive agency to conform to standards set by the Comptroller General, assuring that
 - (a) costs and obligations comply with the law,
 - (b) resources are safeguarded, and
 - (c) all revenues and expenditures are properly recorded and accounted for; and that the Comptroller General's standards assure the prompt resolution of all audit findings.
- (2) that the Director of the Office of Management and Budget prepare evaluation guidelines, in consultation with the Comptroller General, for use by the agencies in determining whether their systems are in compliance with GAO standards;
- (3) that by the end of each calendar year beginning December 31, 1982, the head of each agency in the executive branch prepare a statement that the agency's systems of internal control fully comply or do not fully comply with the GAO standards;
- (4) that, if the controls are not in compliance with the GAO standards, the agency head include with his statement a report identifying

any material weakness in the agency's system of internal control and describing in detail the plans and schedule for rectifying such:

(5) that the reports, signed by the head of the agency, be sent to the President and to the Congress and made available to the public unless prohibited from disclosure by law or Executive order; and

(6) that the agency's Inspector General, if existent, or the head of the agency's internal audit staff receive and investigate allegations of false or misleading information given in connection with the evaluation of the system of internal control or in connection with the preparation of the statement or report; that the Inspector General or the head of the internal audit staff, as appropriate, report any such positive findings to the head of the agency; and that the head of the agency take appropriate disciplinary or corrective action.

Section 3 amends section 201 of the Budget and Accounting Act, 1921, by adding a new subsection requiring that the President include as a part of supporting detail accompanying each budget submitted to the Congress on or after January 1, 1982, a statement detailing any changes made in the budgets requested by each Office of Inspector General. This statement is to include the original request of such office(s), the changes made by the head of the respective department or agency prior to its submission to the Office of Management and Budget, and any further changes made prior to submission of the budget to the Congress.

Section 4 amends section 215 of the Budget and Accounting Act, 1921, by directing the heads of executive departments and entities to include with appropriations requests a report on the status and progress made in having its accounting systems approved by the Comptroller General in accordance with section 112 of the Budget and Accounting Act of 1950.

ESTIMATE OF THE CONGRESSIONAL BUDGET OFFICE

The following estimate prepared by the Congressional Budget Office in accordance with section 403 of the Congressional Budget Act is submitted as required by subdivision (c) of clause (2) (1) (3) of House Rule XI:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, D.C., May 13, 1981.

Hon. JACK BROOKS,
Chairman, Committee on Government Operations, U.S. House of Representatives, Rayburn House Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: Pursuant to Section 403 of the Congressional Budget Act of 1974, the Congressional Budget Office has reviewed H.R. 1526, the Federal Managers' Accountability Act of 1981, as ordered reported by the House Committee on Government Operations, May 7, 1981.

The bill amends the Accounting and Auditing Act of 1950 to require each executive agency to establish standards of internal accounting and administrative controls in accordance with standards pre-

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scribed by the Comptroller General. The bill would also require the Director of the Office of Management and Budget (OMB) to establish guidelines for the evaluation by agencies of their internal accounting and administrative control procedures. H.R. 1526 specifies that an agency's Inspector General, or head of the internal audit staff, shall receive and investigate any allegations that employees provided false or misleading information related to the agency's internal accounting and administrative control. Additional provisions of the bill amend the Budget and Accounting Act of 1921 to require that information be submitted to the Congress relating to appropriations for Offices of Inspectors General and the departments' accounting systems.

CBO estimates that the initial effort required to establish the standards and guidelines to be developed by the General Accounting Office (GAO) and OMB will cost approximately \$125,000. The level of effort required of GAO after the standards and guidelines are in place is not expected to increase significantly. The additional effort required of the agencies and OMB will depend on the requirements embodied by these guidelines and standards. If the new criteria merely modify existing procedures, little additional effort will be required and costs would be expected to be minimal. If, however, the new criteria require significantly more effort than is required by existing procedures, substantial costs could result.

Should the Committee so desire, we would be pleased to provide further details on this estimate.

Sincerely,

ALICE M. RIVLIN, *Director.*

COMMITTEE ESTIMATE OF COST

The committee agrees with the Congressional Budget Office regarding the additional cost to Government that will be incurred as a result of enactment of this bill.

INFLATIONARY IMPACT

In compliance with clause 2(1)(4) of House Rule XI, it is the opinion of this committee that the provisions of this bill will have no inflationary impact on prices and costs in the operation of the national economy.

OVERSIGHT FINDINGS

This legislation is an outgrowth of investigations and hearings on internal auditing followup and resolution conducted by the Subcommittee on Legislation and National Security. Detailed findings were contained in House Report 96-279, dated June 18, 1979, entitled "Failure of Government Departments and Agencies to Follow Up and Resolve Audit Findings."

NEW BUDGET AUTHORITY AND TAX EXPENDITURES

No new budget authority or tax expenditures are contained in this legislation.

REVIEW OF EXISTING LAW

During consideration of this legislation all applicable laws including the Accounting and Auditing Act of 1950 and the Budget Accounting Act of 1921 were reviewed.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman) :

SECTION 113 OF THE ACCOUNTING AND AUDITING ACT OF 1950

SEC. 113. (a) The head of each executive agency shall establish and maintain systems of accounting and internal control designed to provide—

(1) * * *

* * * * *

(d) (1) (A) *To ensure compliance with the requireemnts of subsection (a) (3) of this section, internal accounting and administrative controls of each executive agency shall be established in accordance with standards prescribed by the Comptroller General, and shall provide assurances that—*

(i) *all obligations and costs are in compliance with applicable law;*

(ii) *all funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and*

(iii) *all revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.*

(B) *The standards prescribed by the Comptroller General under this paragraph shall include standards to ensure the prompt resolution of all audit findings.*

(2) *By December 31, 1981, the Director of the Office of Management and Budget, in consultation with the Comptroller General, shall establish guidelines for the evaluation by agencies of their systems of internal accounting and administrative control to determine such systems' compliance with the requirements of paragraph (1) of this subsection. The Director, in consultation with the Comptroller General, may modify such guidelines from time to time as deemed necessary.*

(3) *By December 31, 1982, and by December 31 of each succeeding year, the head of each executive agency shall on the basis of an evaluation conducted in accordance with guidelines prescribed under paragraph (2) of this subsection, prepare a statement—*

(A) *that the agency's systems of internal accounting and administrative control fully comply with the requirements of paragraph (1); or*

(B) *that such systems do not fully comply with such requirements.*

(4) *In the event that the head of an agency prepares a statement described in paragraph (3) (B), the head of such agency shall include with such statement a report in which any material weaknesses in the agency's systems of internal accounting and administrative control are identified and the plans and schedule for correcting any such weakness are described in detail.*

(5) *The statements and reports required by this subsection shall be signed by the head of each executive agency and transmitted to the President and the Congress. Such statements and reports shall also be made available to the public, except that, in the case of any such statement or report containing information which is—*

(A) specifically prohibited from disclosure by any provision of law; or

(B) specifically required by Executive order to be kept secret in the interest of national defense or the conduct of foreign affairs, such information shall be deleted prior to the report or statement being made available to the public.

(6) (A) *The Inspector General of an executive agency or, if no Inspector General exists for an executive agency, the head of the internal audit staff, shall receive and investigate any allegation that an employee of the agency provided false or misleading information in connection with the evaluation of the agency's systems of internal accounting and administrative control or in connection with the preparation of the annual statement or report on the systems of internal accounting and administrative control.*

(B) If, in connection with any investigation under subparagraph (A), the Inspector General or the head of the internal audit staff, as appropriate, determines that there is reasonable cause to believe that false or misleading information was provided, he shall report that determination to the head of the agency.

(C) The head of the agency shall review any matter referred to him under subparagraph (B) and shall take action under chapter 75 of title 5, United States Code, or such other disciplinary or corrective action as he deems necessary.

BUDGET AND ACCOUNTING ACT, 1921

TITLE II—THE BUDGET

SEC. 201. (a) The President shall transmit to Congress during the first fifteen days of each regular session, the Budget, which shall set forth his Budget message, summary data and text, and supporting detail.

The Budget shall set forth in such form and detail as the President may determine—

(1) * * *

* * * * *

(k) *The President shall include in the supporting detail accompanying each Budget submitted on or after January 1, 1982, a statement with respect to each department and establishment of—*

(1) the original amount of appropriations requested by the

Office of the Inspector General of such department or establishment, if any;

(2) the changes made in such request by the head of such department or establishment prior to the submission of such request to the Director of the Office of Management and Budget;

(3) any further changes made in such request prior to the submission of such Budget to the Congress.

* * * * *

SEC. 215. The head of each department and establishment shall submit his requests for appropriations to the Office on or before a date which the President shall determine. In case of his failure to do so, the President shall cause such requests to be prepared as are necessary to enable him to include such requests with the Budget in respect to the work of such department or establishment. *The head of each department and establishment shall include with any such requests for appropriations a report on the status and progress made in having its accounting system approved by the Comptroller General pursuant to section 112 of the Accounting and Auditing Act of 1950. Such reports shall be included in the supporting detail accompanying each Budget submitted by the President on or after January 1, 1982, under section 201 of the Budget and Accounting Act, 1921.*

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APPENDIX

Excerpts from the statement of Honorable Elmer B. Staats, Comptroller General of the United States, before the Subcommittee on Legislation and National Security, February 25, 1981.

Mr. Chairman and Members of the Subcommittee: We are here today to testify on the merits of the proposed bill H.R. 1526 entitled the "Federal Managers' Accountability Act of 1981." This bill, if enacted, will require ongoing evaluations and reports on the systems of internal control of each executive agency. I am grateful for the opportunity to offer our support for the bill and to provide some insight as to why the legislation has our enthusiastic support.

Broadly speaking, the bill deals with the area of accountability, a subject receiving a lot of attention in the past several years. A seemingly unending disclosure of fraud, waste, abuse, and mismanagement in Government during the 1970's has surfaced a serious crisis of confidence in Federal Government programs and agencies. Moreover, the ability of Government officials to effectively, efficiently, and honestly administer programs was a major issue in the recent national election and, as a result, has intensified the need to improve accountability at all levels of management. Federal departments and agencies cannot maintain a level of accountability expected by the public unless they can be assured that strong and effective control over operations exists. Internal control systems properly conceived, soundly based, and effectively monitored are the front-line defense against fraud, waste, and abuse. The proposed "Federal Managers' Accountability Act of 1981" was designed for the purpose of strengthening controls by requiring management to periodically analyze, monitor, and report on the adequacy of their systems of internal control.

The proposed bill deals with internal accounting and administrative controls which essentially are plans of operations, procedures, and records designed to lead to the most effective and efficient management decisions, the safeguard of assets, and the maintenance of reliable financial records. Such controls include for example: (1) a routine in a computer system that prevents issuance of a salary check to any individual that the personnel department has not approved as a bonafide employee, (2) a separation of duties and responsibilities between persons authorized to purchase materials and approve payment for them to minimize the chances of error or embezzlement, and (3) a requirement to do a periodic reconciliation between actual property on hand and quantities per accounting records to insure that financial reports are reliable.

The requirements for Federal agencies to maintain internal administrative and accounting control systems have been mandated by law

for over 30 years; however, most agencies have not always given adequate priority to their internal control systems. The General Accounting Office (GAO) has issued literally hundreds of reports and studies that disclose the fact that most agencies are operating systems vulnerable to physical losses and waste of Federal property and money as well as susceptible to fraudulent or otherwise improper use of Federal resources. Examples of findings disclosed in GAO's reports include:

About \$198,000 was returned by vendors because duplicate payments were made by one department as a result of inadequate control over processing invoices submitted by the vendors.

A number of Federal agencies were found to incur commitments for future cash outlays without first verifying availability of appropriated funds.

A number of agencies did not effectively analyze receivables to identify overdue accounts in order to take necessary action to receive payment.

A Defense Department employee embezzled over \$2 million because he was allowed to both process claim adjustments as well as approve claim payments.

Although agency management has generally concurred with the internal control weaknesses reported by GAO and has agreed to implement appropriate corrective actions, the weaknesses that are left undetected by management, GAO auditors, or other Federal auditors is reason for greater concern.

The proposed Federal Managers' Accountability Act of 1981 would supplement existing legislation by requiring management to periodically monitor and report on the adequacy of their systems of internal control to provide reasonable assurance that (1) all financial commitments and obligations were in compliance with applicable laws; (2) all funds, property, and other assets were safeguarded against waste, loss, unauthorized use or misappropriation; and (3) all revenues were properly recorded and accounted for. Specifically, the act requires each agency head to conduct annual evaluations of internal accounting and administrative control and to prepare an annual report, addressed to the President and made available to the Congress and the public, stating an opinion on the adequacy of the agency's systems of internal control. The opinion, as a minimum, shall contain (1) a description of material weaknesses in internal control, (2) a plan for correcting such weaknesses, and (3) a narrative on any unresolved findings disclosed in audit or management reports. In addition, these reports are subject to review and audit by Federal auditors (both GAO and agency Inspector Generals or the chief of internal audit) to determine their accuracy and validity.

Effective internal controls help insure that Government managers know what their monetary and physical assets and resources are at all times; know how the assets are being used, dispensed, and disposed of and for what purposes; know that such purposes are authorized; and know that fraud, waste, and abuse are minimized and discouraged. This proposed legislation establishes a badly needed mechanism which forces management to pay closer attention to the quality of internal controls in its agency and, more importantly, it estab-

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